MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

December 13, 2011
11:30 a.m.

Minutes

<u>BOARD MEMBERS PRESENT:</u>

Rick Beard, Kip Cashmore, Dennis Hymas, Louise Kelly and Commissioner Ed Leary.

<u>DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:</u>

Michael Jones, Paul Allred, Merisa Lanford, and Sonja Long

1. Call Meeting to Order – Commissioner Ed Leary

2. Minutes -

Louise Kelly made the motion to accept the minutes, Kip Cashmore seconded the motion. It was unanimous.

He also introduced Merisa Lanford. She is our new administrative secretary. He asked her to give a brief overview of her background.

3. Budget - Michael Jones

Michael gave out his budget handout. He went through it. FY2013 has been updated. He updated it with the Governor's recommendations. He approved the building blocks that were discussed at the last board meeting. We have the Governor's approval to purchase and replace the laptops and desktops in the office next fiscal year, also to increase our examination staff by two examiners and then bring on another office support tech. He also included some adjustments for health insurance cost increases and did recommend to the legislature a 1% general pay increase for all employees.

Commissioner Leary asked Michael to go through the building block requests to the Governor before the board votes on it. Michael said that we requested three building blocks. The first one was to replace all of our laptops and the desktops in the department; the amount of $148,000 was for the new computers and to update the software. The second priority was to increase the office support staff; there are two components to that, the ongoing expense of $48,700 for salary and benefits and a one time component of about $3,500 to buy a new computer and some furniture. The third building block was increase for the two examiners; the ongoing cost for that was $223,000 and then a $6,000 cost to buy laptops and furniture. Our request to the Governor increased our budget by about $430,000. The Governor in his recommendations took in the increase in cost that had been projected to him for insurance and retirement costs, and increase in cost of services from other agencies. With the Governor's increase and our building blocks it raised our budget about $592,000 over what we are currently spending.

Louise asked if the need for two additional examiners is because of Dodd-Frank. Commissioner Leary said that a combination of that and CFPB and compliance issues are an additional burden on the examiners. We have historically been doing the safety and soundness and lightly touching the compliance. Going forward he sees a need for us to be in the compliance. Also as we have a number of larger institutions that went to Bank Holding Company status that requires an additional exam. The third component is really the ongoing nature of our recession. It is not abating quickly, so we simply are going back in to institutions, spending longer in follow-ups and being there more often. There is also an additional component that comes as an unfortunate side effect when we close institutions, that is a tremendous resource strain.

Commissioner Leary explained that the motion would be to recommend that the recommendation that the department put into the Governor, which the Governor has recommended with the additional add-ons to the legislature. Rick Beard made the motion, Dennis Hymas seconded the motion. It was unanimous.

4. Out of state travel – Michael Jones

Michael gave out his handouts and went through them; the items that are new or have been modified are bolded.

5. Current topics – Commissioner Leary

After a year and three-quarters of processing time, Green Dot was finally approved by the Federal Reserve on November 23 to acquire Bonneville Bank in Provo. After the three week waiting period required by the Department of Justice, it was completed on December 8. They may become a Fed member bank. Why is this significant, this is the first time that a payment processor has been approved for a bank. Commissioner Leary said that Lew Goodwin is their new president.

Since the last board meeting we took possession of SunFirst Bank in St George. We did that on November 4.

As a result of our chartering and supervision of UBS, an industrial bank headquartered in Utah, national regulators here in the US and internationally once a year get together for a supervisory college. We have done those meetings with a number of our large banks in the US, but about 4 months ago we were invited to attend the Swiss version of that college. This year Darryle has gone to attend that college.

UBS is another example…For those institutions over $10 billion in size, the CFPB becomes the primary regulator with regard to 18 federal laws. Our first foray in working with CFPB was at UBS Bank. We are just wrapping up the first joint exam between us, FDIC, and CFPB for compliance issues. We have three institutions that are above that threshold. Additionally we have four institutions that could within the next year move beyond that $10 billion mark. The first level experience is that they kept the OTS based regulator in San Francisco as their San Francisco Western States coordinator. We know the gentleman and he has been good. He has come over to meet the institutions and has spent time with our department reviewing some of these issues. Commissioner Leary hopes that there would be a discussion after this first exam together to talk about what worked and what didn't work and see if we couldn't establish a protocol that would make it work better. The difficulty that Commissioner Leary sees is that FDIC is used to having the lead and he can't imagine that they will give that role up willingly or easily, so CFPB is going to have to step forward on some of these.

The last item to talk about is legislation, we were looking at two bills that the department would like passed in this upcoming session. The first one is to reduce fees to the institutions, after presenting it to the associations a couple of them recommend that we don't do it this session. They asked us to wait at least a year. So, following their advice Commissioner Leary did not request that bill. The second item was the derivatives bill, Dodd-Frank Act mandated that for all state banks that want to engage in derivatives after January 2013 they could not unless the state law specifically how credit exposure in derivatives would be treated in the lending limit law. We have to get that passed this session. He asked Paul to explain that a little bit more. Paul said that in order for our state chartered institutions to continue to engage in derivative transactions we have to amend our lending limit provisions. We have on in the bank act and one in the industrial bank act; we have to use the language out of Dodd-Frank take into consideration credit exposure for derivative transactions. We have taken a very simple approach to amending our statute to include that in the lending limit. With our intent being once those chapters are amended we would go in and further regulate derivative transactions in our administrative rule. We have been waiting to see what our federal counterparts are doing with respect to that, they are required under Dodd-Frank to write rules and regulations to regulate derivative transactions. Darryle Rude and Paul were on a call with some other states and CSBS, who informed us that the OCC and the Federal Reserve have no idea how to tackle that problem.

Rick Beard gave a brief overview on what a derivative is. He said that they are essentially trying to off load the risk. If you want a fixed rate loan and he is a bank that doesn't want to have the risk, he can go to a third party and they will agree to assume fluctuation of the interest rate for a fee. Then you get your fixed rate and he gets an asset with a floating rate on his books. AIG was one of the biggest companies involved in derivatives transactions. Paul explained that that is why it addressed in Dodd-Frank; the concern is that derivatives played a role in our financial crisis and perhaps banks shouldn't be engaged in that. Fortunately Congress was persuaded that there are good uses for derivatives, very low risk, and very sane use of derivative transactions. The concern is how do we regulate that tool so that it is used in a safe and sound manner. And that is what we will be working on. We are seeking input from the industries who use those transactions.

Commissioner Leary wanted to make the board aware of some numbers that he just got from the FDIC. He gave out a handout and went over that information, employment, unemployment, house prices, pretax return on assets, total past due loan ratio, CRE loan concentration, past due CRE loan ratio, and Tier 1 leverage ratio.

6. Other business –

7. Next meeting – March ~~20, 2012~~ moved to March 13, 2012.